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Ex-Aide Ties U.S. To Fund Transfer

*McFarlane Says President's Word
Treated as Intelligence 'Finding'*

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Former national security adviser Robert C. McFarlane testified yesterday that he was told last May by Lt. Col. Oliver L. North that "the U.S. government had applied part of the proceeds" from the Iranian arms sales "to support the contras," a contradiction of assertions by President Reagan and Attorney General Edwin Meese III that Americans played no role in funneling the money to aid the Nicaraguan rebels.

In four hours of testimony before the House Foreign Affairs Committee, McFarlane said he had been informed of the U.S. government role by North, who was recently fired from the National Security Council staff, at the time the two men secretly traveled to Iran in an attempt to exchange U.S. arms for American hostages held by pro-Iranian extremists in Lebanon.

In another controversial disclosure, McFarlane said the White House considered the president's oral approval in August 1985 of the shipment of U.S.-made arms from Israel to Iran to have the same authority as a written intelligence "finding," the legal mechanism authorizing U.S. government covert operations. Part of the controversy surrounding the secret arms sales centers on whether such an activity violated U.S. laws on transferring weapons to terrorist nations.

McFarlane also told the committee that Meese had given an oral opinion that such unwritten findings by the president were legal. The president informed key members of the administration about his oral finding in "one-on-one conversations," McFarlane said.

McFarlane's appearance came on the first day of public hearings by the House into the controversy that has beset the White House for more than a month. The House Permanent Select Committee on Intelligence is scheduled to begin closed hearings on the matter today. The Senate Select Committee on Intelligence opened the second week of its closed hearings yesterday with testimony by Elliott Abrams, assistant secretary of state for inter-American affairs, and Robert Owen, who worked as a State Department consultant on the so-called humanitarian aid program for the contras. Owen became the committee's third witness to refuse to testify by invoking the Fifth Amendment.

The former national security adviser's account of the handling of the profits from the Iran sales contradicted statements by Reagan in a Time magazine interview two weeks ago. The president said "another country" overcharged the Iranians for the arms and put the pro-

ceeds into contra bank accounts. "It wasn't us funneling money to them," he added.

Meese, during a Nov. 25 news conference, said the bank accounts for the profits were opened by contra representatives. Information

about those accounts was passed on to representatives of Israel, who arranged for the fund transfer, according to Meese's version. Americans, he said, did not control the money and did not participate in the transfer of the funds.

Under congressional prohibitions in force at that time, all U.S. military aid to the Nicaraguan rebels was forbidden and U.S. officials were barred from soliciting such assistance directly or indirectly.

McFarlane's explanation for the legal status of oral findings by Reagan appeared to conflict with past practice. Traditionally, intelligence findings have been drafted within the National Security Council with the assistance of the Central Intelligence Agency. They are then normally circulated within key departments for approval and signed by the president. Copies are sent to Cabinet members to keep key administration officials informed about clandestine operations.

Justice Department spokesman Terry Eastland said late yesterday after conferring with Meese in London that the attorney general would have no comment until reviewing McFarlane's testimony.

A former top CIA official familiar with agency activities and the law said yesterday that he could not recall a presidential finding being made orally.

House legal experts say that a presidential finding on the arms shipments was required under both the Arms Control Export Act, which barred weapons shipments to Iran as a country supporting terrorism, and the 1980 Hughes-Ryan amendments, which require that the White House notify congressional leaders of covert intelligence operations.

The Senate intelligence panel hearings resumed yesterday with Chairman David F. Durenberger (R-Minn.) saying, "I still feel the key as far as the American public is concerned is for Ollie North and John Poindexter to tell Ronald Reagan everything they know and for Ronald Reagan to tell the rest of us."

North and Vice Adm. Poindexter, who succeeded McFarlane as national security adviser until resigning last month, are scheduled to appear today before the House For-

eign Affairs Committee. Both invoked the Fifth Amendment last week before the Senate committee and have already invoked House Rule 11, which allows subpoenaed witnesses to request exclusion of cameras. Citing the president's pledge of full cooperation with the various investigations, the House committee also has requested—but not subpoenaed—NSC staff member Howard J. Teicher, who was the council's expert on Iran.

The Senate Select Committee on Intelligence spent much of yesterday questioning Abrams, who chaired the interagency group guiding the administration's contra program. Abrams has also been identified as the State Department official who solicited a multimillion-dollar donation from the sultan of Brunei for the contra "humanitarian" aid fund and directed that the money be sent to a Swiss bank account.

Owen, who invoked the Fifth Amendment, is a former Senate aide who served as a link between North and the contras while serving as a consultant to the State Department beginning in 1985. Owen also helped organize Nicaraguan Indian military opposition in Honduras and a 200-man force in Costa Rica in 1985, according to the Associated Press.

In the House hearing, which drew so many reporters and television cameras that a separate holding room was opened so the overflow crowd could watch on television, both McFarlane and Secretary of State George P. Shultz took some blame for the current crisis.

McFarlane said he made a mistake in believing that the United States could publicly follow one policy while pursuing a contrary one in secret. He said he should not have urged a program conducted "in a way our body politic cannot understand."

Shultz said on two occasions that after he learned of arms shipments going on without his formal approval, he could have done more to prevent them.

McFarlane, though he put the Iran initiative in the broad geopolitical context of that country's proximity to the Soviet Union, also said, "I'll have to admit the hostages were clearly the leading underpinning of this whole initiative."

Reagan, he said, "was terribly, terribly concerned about the welfare of the hostages."

McFarlane said he reviewed the Iran program in December 1985, after it had been in place for six months, and found "it was not proceeding as we hoped it might." His recommendation to the president at that time, McFarlane said, was that no more arms be shipped but that discussions with Iranian representatives be continued.

Committee members tried to get McFarlane to say that neither North nor Poindexter would have initiated the diversion of funds from the arms sales to aid the contras without direction or approval of the president.

McFarlane several times said they would have needed "higher authority" but balked at saying it would necessarily have come from the president.

At one point he said, hypothetically, that prior approvals for support of the contras may have "led them to take actions that were not specifically authorized but where they thought it was previously granted."

"I can't really account for how it occurred," McFarlane said of the contra diversion, but three times during his testimony he repeated that North said the U.S. government applied certain Iranian funds to aid the contras.

Shultz and McFarlane provided the most detailed official reconstruction of the origins of the Iran operation to date. Both said that the initiative originated with Tehran, an account echoing Reagan in his Time interview. That contrasts with the first administration statements, which said the Reagan administration decided to seek new contacts with Iran after the hijacking of TWA Flight 847.

After June 1985, Shultz said, the use of arms sales to Tehran was "periodically considered" as a way to open contacts with Iran and gain release of U.S. hostages. McFarlane said he was visited by a third-country representative, presumed to be from Israel, in July who said Iranians opposed to terrorism and eager to end the Iran-Iraq war wanted to open conversations.

McFarlane agreed, he said, but only after their "bona fides" were established, a subject he told the legislators he would expand on in a closed-door session.

In August, the Israeli representative returned, saying the Iranians were interested in dialogue but also wanted "modest quantities of military hardware."

McFarlane said the president made his decision in August that if "a third government [Israel] went ahead to provide [the Iranians] with small quantities of arms," he would then permit repurchases to replace those given to Tehran.

The transfer took place in September 1985 and the Rev. Benjamin Weir was released.

Shultz told the legislators he was never directly told that arms transfers had been undertaken in September and again in November 1985 by the Israelis with Reagan's approval. Instead, Shultz said, "I learned, so to speak, that plans had been implemented" but as far as he knew they had not been "consummated."

He also learned that a November shipment had been "rejected" by the Iranians.

In December, both Shultz and McFarlane said, there was a discussion about the issue and a U.S. delegation, headed by McFarlane, was instructed to meet with Iranian representatives in London about future relations. McFarlane was directed by the president to tell the representatives that there would be no further arms shipments.

Staff writers Tom Kenworthy, James R. Dickenson, Helen Dewar, Howard Kurtz and Bob Woodward contributed to this report.